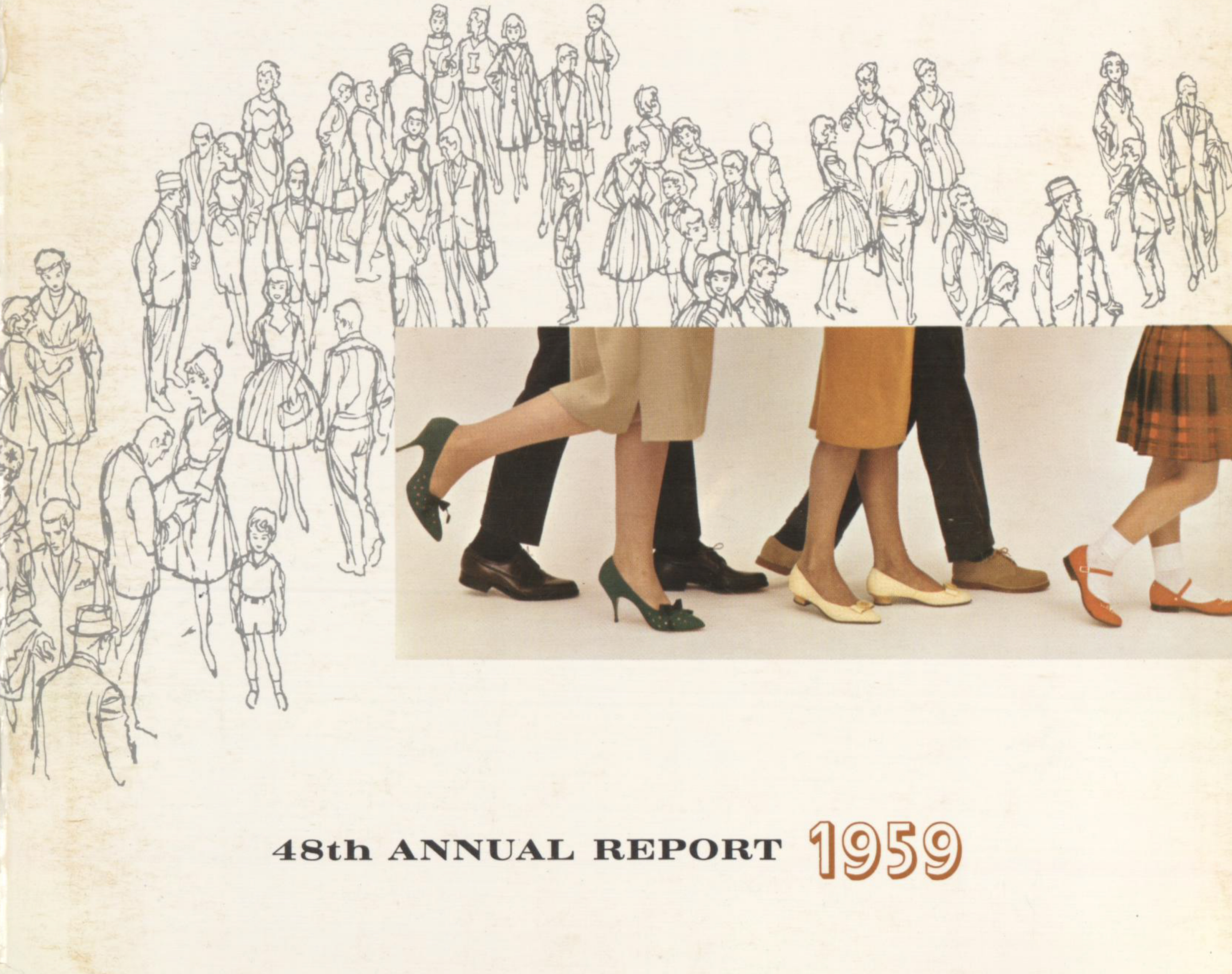
INTERNATIONAL SHOE COMPANY



48th ANNUAL REPORT 1959

1959

Summary Description of the Business of the International Shoe Company, The Florsheim Shoe Company and Subsidiary Corporations

INTERNATIONAL SHOE COMPANY
(St. Louis Divisions)

PRODUCTION:
The Company manufactures a complete line of men's, women's and children's shoes.

The Company also manufactures, for its own use in the manufacture of shoes, upper leather, sole leather, rubber heels, rubber soles, cotton cloth for linings, chemicals, cements, leather welting and other items.

DISTRIBUTION AT WHOLESALE LEVEL:
Through its selling divisions, the Company distributes the shoes it produces throughout the United States and its possessions and to foreign countries where satisfactory trade relations can be carried on under existing government restrictions.

DISTRIBUTION AT RETAIL LEVEL:
More than 30,000 independent retailers distribute the greater part of its product at the retail level. A part goes through large and small chain organizations and through retail outlets operated by the Company.

Through its subsidiary, Shoenterprise Corporation, the Company finances the setting up of retail shoe outlets in locations where the Company's distribution is unsatisfactory.

THE FLORSHEIM SHOE COMPANY

The Florsheim Shoe Company, a division, manufactures and distributes Florsheim shoes for men and women. In addition to distribution through 5,000 dealers, Florsheim operates a number of shoe stores and leased departments throughout the United States.

SUBSIDIARY CORPORATIONS

This consolidated report includes the affairs and accounts of subsidiary corporations, all of which are engaged in businesses directly related to that of the Company. Four of these subsidiaries are of significant size:

SAVAGE SHOES LIMITED (Canadian subsidiary) which manufactures Savage shoes and distributes them throughout Canada. Through its subsidiary, Scott & McHale Limited, Savage also produces and distributes McHale footwear for men.

SHOENTERPRISE CORPORATION

TWELFTH-DELMAR REALTY COMPANY which owns and operates the Globe-Democrat Building in St. Louis, Missouri, with International Shoe Company and the St. Louis Globe-Democrat Publishing Company as the principal tenants.

PUERTO RICAN INVESTMENT COMPANY through which are produced juvenile, growing girls' and men's shoes, principally for distribution by the parent company.

Annual Report

INTERNATIONAL SHOE COMPANY

CONTENTS

ANNUAL MEETING OF STOCKHOLDERS will be held at 10:00 A. M. on February 23, 1960, at the Company's General Offices, 1509 Washington Avenue, St. Louis, Missouri.

DIRECTORS

William J. Banks
Edgar S. Bland
David R. Calhoun
Maurice R. Chambers
Kenton R. Cravens
Harold M. Florsheim
Clemence L. Hein
Andrew W. Johnson
J. Lee Johnson
Lee C. McKinley
Robert O. Monnig
Oliver F. Peters
Henry H. Rand
Norfleet H. Rand
Rezin H. Richards
Richard O. Rumer
Laurence M. Savage
Albert V. Wheeler

OFFICERS

Henry H. Rand . . . . *President*
Andrew W. Johnson . . . . *Vice-President*
Oliver F. Peters . . . . *Vice-President*
Robert O. Monnig . . . . . . *Vice-President and Treasurer*
J. Lee Johnson . . . . *Vice-President*
Rezin H. Richards . . . . *Vice-President*
Harold M. Florsheim . . . . *Vice-President*
Lee C. McKinley . . . . *Vice-President*
Maurice R. Chambers . . . . *Vice-President*
Norfleet H. Rand . . . . *Vice-President*
Richard O. Rumer . . . . *General Counsel*
William J. Banks . . . . *Comptroller and Asst. Secretary*
Warren P. Metz . . . . *Secretary and Asst. Treasurer*

GENERAL OFFICES

1509 Washington Ave. • St. Louis 66, Mo.

TRANSFER AGENTS

Manufacturers Trust Company, New York, N. Y.
Mercantile Trust Company, St. Louis, Mo.

REGISTRARS

Guaranty Trust Company, New York, N. Y.
St. Louis Union Trust Company, St. Louis, Mo.

Highlights of the Year – 1959

Fiscal Years Ended November 30	1959	1958
Net Sales	$283,260,920	$244,313,888
Income before Federal and Canadian Income Taxes	19,399,866	15,553,509
Federal and Canadian Taxes on Income	10,131,769	7,938,113
*Net Income	9,207,069	7,540,549
Percent of Net Sales	3.3	3.1
Per Share	2.71	2.25
Dividends Paid	6,050,185	7,042,808
Dividends per Share	1.80	2.10
Income Retained	3,156,884	497,741
Current Assets	143,247,824	121,661,768
Current Liabilities	42,921,299	24,871,628
Working Capital	100,326,525	96,790,140
Working Capital Ratio	3.3	4.9

***After adjustment for minority interests.**

Annual Message

FROM THE PRESIDENT

HENRY H. RAND

. . . to the Stockholders

An all-time record high was set by your Company's sales in the year 1959. Earnings improved but did not fully reflect the upswing in the Company's volume of business. This was due principally to the effect of sharp upward price movements in hide and leather markets under our last-in, first-out (Lifo) method of inventory valuation.

Our Company's net income for the year would have been approximately $2.8 million greater under the first-in, first-out (Fifo) method, about $.84 per share, for a total of about $3.55 per share for the year.

Your management believes that substantially higher earnings can be expected from future operations at the volume level attained in 1959.

Shoe retail country-wide, along with all retail, maintained a high level of activity throughout the year despite the steel strike during most of the last half.

Considerable progress was made during the year in consolidating and expanding the Company's position in the retail distribution of its product.

More than 200 merchants newly adopted our Merchants Service Plan under which they will concentrate more heavily on our product in return for services received under the plan. This closer tie of retailer and manufacturer is becoming generally recognized as almost a "must" for profitable operation with today's complexity of shoe merchandising.

The Shoenterprise Plan has been enlarged to fit the needs of new store openings in locations where larger amounts of capital are needed. In these situations the individual is required to provide only 40% of the equity capital, with the Company holding 60%.

Additionally, the Company has established an ownership position with outstanding retailers in many parts of the country. Under this new relationship these retailers, no longer held within the limits of their own supply of capital, can expand as rapidly as suitable opportunities appear.

The importation of footwear increased greatly during the year 1959. Large

quantities of low-priced sandals, slippers and other items came in from Japan and imports increased of better-grade footwear from European countries.

The presence in some foreign countries of extremely low cost labor opens opportunities to supply the American market with the simple types of footwear which can be mass-produced very effectively in those countries.

Your management believes that present world developments which encourage exchange of product will bring increasing quantities of shoes into this country. Our Company's powerful distribution organization will utilize items produced so advantageously in foreign countries. We have already established ourselves as exclusive distributor of some types of footwear produced by one of the largest manufacturers in Japan.

The European Common Market, slowly unfolding under a ten-year program, will eventually give rise to more effective competition by European shoe manufacturers in the American market. On the other hand, expansion by American shoe manufacturers in the Common Market area is to be expected.

Because of its importance in 1959, the subject of last-in, first-out method of inventory valuation is covered fairly comprehensively later on in this report and it is recommended that you read it carefully.

It is with deep sorrow that I report the passing on October 18, 1959, of Irving S. Florsheim, Chairman of the Board of Managers of The Florsheim Shoe Company and Director of International Shoe Company. Long a leader in the shoe industry and civic circles, he will be sadly missed by his friends and associates.

Present information indicates that the national economy will continue to prosper in 1960. The shoe industry is expected to maintain a high level of activity. It is your management's judgment that our Company should again report record-breaking sales in 1960, which can reasonably be expected to produce substantially higher earnings than in 1959.

To our many customers, employees and stockholders, your management expresses its thanks for their continued loyalty and support.

FOR THE BOARD OF DIRECTORS

Henry H. Rand
PRESIDENT

January 6, 1960

The Year in Review

Sales

All of the Company's lines showed good sales gains in 1959.

Net sales of $283,260,920 in 1959 were the largest in the Company's history, exceeding prior year sales of $244,313,888 by $38,947,032, or 16%. This year's sales included $2.5 million of military business against none in the prior year.

The record high established in 1959 exceeded the prior peak sales in 1956 by $16,447,381, or 6%.

The strengthening of our manpower in both wholesale and retail distribution assures continued sales growth. Annual sales volume at the rate of $300,000,000 is a near-term target.

Our product has been placed in many leading department stores and other significant retail outlets.

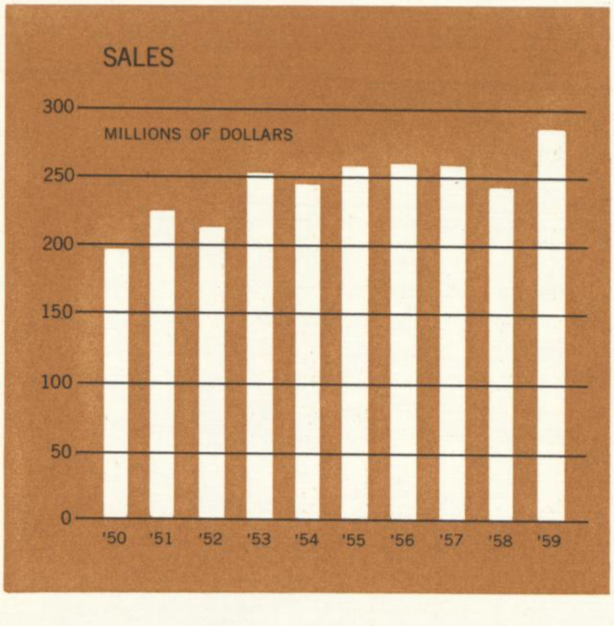
Net Income . . . Costs . . . Prices

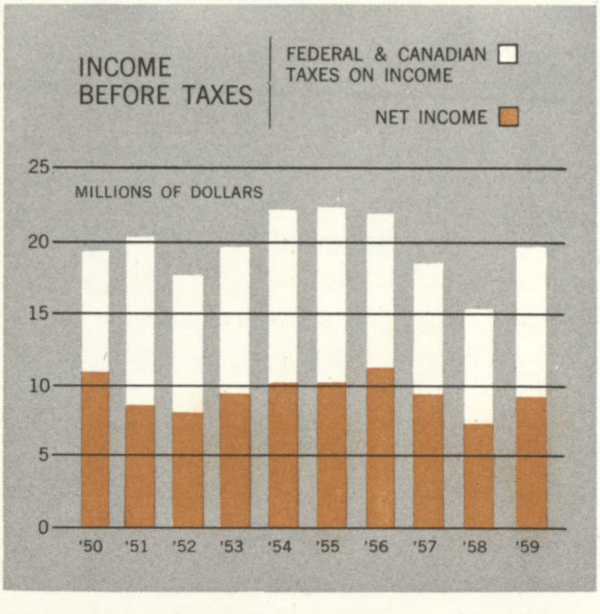
Net income of $9,207,069 for the year compared with $7,540,549 in 1958—an increase of $1,666,520. Per share this amounted to $2.71 compared with $2.25 in 1958.

An unprecedented peacetime rise in the price of hides and leather took place during the first half of 1959, and these prices continued to fluctuate at a high level through the remainder of the year. This had a material effect on our Company's results for the period. Under the last-in, first-out method of valuing inventories, the latest receipts of these high-priced hides and leather were charged directly to our cost of sales. It was wholly impracticable to increase wholesale shoe prices daily or weekly in line with the spectacular rise in the prices of these raw materials. The effect of charging these high-costing materials against shoes sold at prices based on earlier and lower raw material prices was to reduce our earnings during most of the year.

Under the first-in, first-out, lower of cost or market, inventory method our stated net income for the past two years would have been approximately $2.8 million higher in 1959 and $.3 million higher in 1958—$.84 a share compared with $.10 a share. On this basis, earnings for the two years would have shown $3.55 a share compared with $2.35.

Results in 1959 benefited from major moves made in recent years to improve efficiency and reduce costs. The year's high volume was attained without any appreciable change in overhead.





Lifo

The use of the last-in, first-out inventory method was important in the results for 1959.

In most years the costs of materials and supplies used in the manufacture of shoes range within a relatively narrow margin and the result of the lifo method is not far different from the conventional first-in, first-out method.

Because of the very significant effect of this accounting method on our earnings for 1959, it may be well to briefly review our experience with the lifo inventory method since it was adopted in 1941-1942.

As to the major part of our inventories, the same basic low prices used in pricing the inventories in 1941 and 1942 were used in valuing our inventories on November 30, 1959, approximately $25 million below current values.

The cumulative effect from 1941 to date has been a reduction in our taxable income and a reduction in our stated earnings before taxes of $25 million. This resulted in a tax saving of approximately $14 million which has remained in our Company's working capital. If the inflationary trend continues, we shall continue to enjoy the use of this working capital. If a collapse of prices, labor rates, etc. should take place in the national economy, part or all of the $25 million would increase our taxable income and stated earnings, and reverse partly or completely what has happened up to now. While this appears to be most unlikely, should it happen our Company would have enjoyed the use of part or all of $14 million of working capital for a period long enough to produce great savings in terms of interest on this amount of borrowed money. Up to this time, such savings are calculated at more than $5.5 million.

Dividends

The 195th consecutive dividend was paid on the Company's common stock on January 1, 1960, completing 47 years of uninterrupted payments. Dividend payments totaled $1.80 per share for the year, continuing the quarterly rate of $.45 which has been paid since July 1, 1958.

Payments for dividends in 1959 totaled $6,050,185 leaving $3,156,884 of the year's net profit to provide for the continued growth and expansion of the Company. This compared with $497,741 for the previous year.

Financial Position

Following are comments on the more significant items in the Consolidated Financial Position shown on page 18.

The increase of $3,536,385 brought working capital to the highest amount on record, $100,326,525.

Source and distribution of funds

FISCAL YEAR 1959

Funds were acquired from sources as follows:

Net income for year	$ 9,207,069
Depreciation of plant and equipment	3,567,387
Proceeds from sale of company's treasury stock	1,760,776
Decrease in customers' loans receivable	624,092
Miscellaneous	102,449
	$15,261,773

These funds were distributed as follows:

Dividends paid on common stock	$ 6,050,185
Expenditures for plant and equipment (net)	4,273,251
Decrease in long-term indebtedness	965,250
Increase in excess of investment over equity in subsidiaries (net)	436,702
	$11,725,388
Net Increase in Working Capital	$ 3,536,385

Expansion of Company's retail ownership accounted for approximately $8 million of the increase in inventories. It also accounted for slightly more than all of the increase shown by physical properties and explains the decrease in treasury stock.

Other changes in the individual asset and liability items in net working capital were the result of greater volume of business.

Stockholders' equity of $107,916,256, amounted to $31.78 per share.

Plans call for the construction of a new shoe factory in London, Ontario, in 1960. Except for this item, expenditures for physical properties during the year will result from continued expansion of retail and normal replacement of worn-out items. It is now expected that depreciation charges will cover all of these items with net plant account unchanged at 1960 year end.

Production

Production of civilian shoes by the Company's 59 shoe manufacturing plants in 1959 totaled 51,035,257 pairs compared with 46,298,643 pairs in 1958—an increase of 10%.

Military production in 1959 amounted to 494,286 pairs compared with none in the prior year. The combined shoe production totaled 51,529,543 pairs or 11% greater than in 1958.

As for many years, our Company continues to be the world's largest manufacturer of shoes by a significant amount.

In addition to shoes, our Company produces many other items for use by us in the manufacture of shoes. These items, which are produced in our 23 supply plants and tanneries, consist of leather, rubber soles and heels, cotton textiles and other articles having a value of $60,897,529. These items are shown in the production summary on page 9.

Executive Stock Option Plan

During the year the Company granted stock options for 115,550 shares of common stock at $34.50 per share to 291 key executive and administrative employees. The options will run for a period of five years and are exercisable at any time after 18 months.

This action follows the Company's long-established policy of encouraging its key executive and administrative employees to acquire a proprietary interest in the Company.

This matter will be presented for ratification at the Stockholders' meeting February 23, 1960.

Our Employees

Our Company's capable working force—33,500 men and women—did a good job in 1959. By earnest and intelligent application to a

How we used our 1959 sales dollar

For materials, supplies and expenses	$140,921,427	49.6¢
For employees' pay and benefits	117,765,567	41.6¢
For tools wearing out (depreciation)	3,567,387	1.3¢
For payments ordered by Government (taxes—excluding social security)	11,799,470	4.2¢
For dividends to stockholders	6,050,185	2.2¢
Remainder used in business	3,156,884	1.1¢
	$283,260,920	100.0¢

great multiplicity of individual tasks, all of them contributed to the year's achievement. Increased sales kept most of our plants at full production throughout the year and a number operated on an overtime basis for a considerable period during the summer months. Payrolls and employees' benefits for the year totaled $117,765,567 compared with $105,975,618 for the prior year.

The principal employee wage contracts which became effective October 1, 1958, are for a two-year period and remain in effect until October 1, 1960. Wages were increased 2½% at most plants on October 1, 1959, as provided in these contracts.

September 30, 1959, marked the completion of the first year of pension payments to retired plant and office employees of the St. Louis sales divisions. During the year 480 employees retired under this program. The pension plan is financed entirely by Company contributions amounting to 3% of the gross payroll of employees covered by these agreements.

Total payments by the Company to all pension funds during 1959 amounted to $2,940,143.

Company employees also benefit from group life, accident and health, hospital and surgical insurance plans. The Company's cost for these benefits during the year exceeded $1,500,000.

Stockholders

The owners of the Company's 3,395,222 shares of common stock outstanding numbered 18,508 at year end, the highest number of stockholders in the Company's history. This was an increase of 1,251 over a year ago and the thirty-third consecutive year in which ownership of the Company has broadened. Approximately 60% of the stockholders own 50 shares or less, while only 17% own more than 100 shares each.

Our stockholders reside in every state in the Union and in 10 foreign countries. Average ownership at year end was approximately 180 shares with no one person or organization owning as much as 2%.

New Directors

DAVID R. CALHOUN

KENTON R. CRAVENS

David R. Calhoun, president of the St. Louis Union Trust Company, and Kenton R. Cravens, president of Mercantile Trust Company, were elected to International Shoe Company's Board of Directors on February 24, 1959. Both of the new directors are eminent in financial, business and civic affairs.

Henry H. Rand Honored

Henry H. Rand, president of International Shoe Company, was selected as "Shoeman of the Year" for 1959 in the St. Louis area and received the Mark A. Edison Award at a dinner on October 22.

This award was inaugurated in 1958 by the 210 Associates, the philanthropic foundation of the shoe and leather industry, as a tribute to the late Mark A. Edison, one of the founders of Edison Brothers Stores, Inc. It is based on distinguished service to the shoe industry and for humanitarian and civic activities.

Production Summary

Our Company's principal production is shoes. During 1959 we produced:

SHOES			Consisting principally of this type of production our sales amounted to
For Men and Boys	Pairs	16,855,184	
For Women and Girls	Pairs	16,466,508	
For Children	Pairs	16,918,486	
House Slippers	Pairs	1,289,365	
		51,529,543	**$283,260,920**

In addition, our Company carries on a vast amount of other production of materials and supplies used principally by us in the manufacture of shoes. During 1959 we produced:

MATERIALS FOR SHOE UPPERS			
Leather for Uppers (including Linings) from Cattle Hides and Lambskins	Feet	62,011,852	Value
Cloth for Linings from Cotton	Yards	9,950,751	**$24,403,712**
MATERIALS FOR SHOE BOTTOMS			
Soles, of Leather	Pairs	22,223,978	
Soles, of Rubber	Pairs	17,899,801	
Counters, of Leather	Pairs	6,477,627	
Heels, of Leather	Pairs	3,132,396	
Heels, of Rubber	Pairs	19,313,157	
Leather, for soles from Cattle Hides	Pounds	8,542,912	Value
Welting, Leather	Yards	12,995,134	**$24,974,459**
OTHER MATERIALS AND SUPPLIES			
Boxes, Box Toes, Cartons, Cements,			Value
Chemicals, Patterns and others		Not Itemized	**$11,519,358**
TOTAL VALUE—shoes, materials and supplies			**$344,158,449**

Plant Facilities

Manufacturing Plants:

- 59 SHOE FACTORIES
- 3 SOLE CUTTING PLANTS
- 2 RUBBER PLANTS
- 1 COTTON TEXTILE MILL
- 1 WELT MANUFACTURING PLANT
- 1 CHEMICAL PLANT
- 1 BOX PLANT
- 1 WOOD HEEL COVERING PLANT
- 1 LAST REMODELING PLANT
- 1 FINDINGS PLANT
- 1 DISPLAY SHOP
- 1 LEATHER FIBRE PRODUCTS PLANT

Tanneries:

- 5 UPPER LEATHER TANNERIES
- 1 SOLE LEATHER TANNERY

Supply Plants:

- 1 UPPER LEATHER SUPPLY PLANT
- 1 CENTRAL SUPPLY PLANT
- 1 CENTRAL MACHINE SHOP

Warehouses:

- 8 FINISHED SHOE WAREHOUSES

LOCATIONS OF SHOE FACTORIES, SUPPLY PLANTS, TANNERIES AND WAREHOUSES

MISSOURI
Belle
Bland
Cape Girardeau
Dexter
Eldon
El Dorado Springs
Fulton
Hamilton
Hannibal
Hermann
Houston
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Poplar Bluff
Richland
St. Charles
St. Clair
St. James
St. Louis
Salem
Sikeston
Sullivan
Sweet Springs
Vandalia
Washington
West Plains
Windsor

ILLINOIS
Anna
Chicago
Evansville
Flora
Mt. Vernon
Olney
Quincy
South Wood River
Springfield
Steeleville

KENTUCKY
Hopkinsville
Paducah

PENNSYLVANIA
Philadelphia

NEW HAMPSHIRE
Manchester

ARKANSAS
Batesville
Conway
Malvern
Russellville
Searcy

GEORGIA
Atlanta

TENNESSEE
Bolivar

TEXAS
Bryan

KANSAS
Topeka

WEST VIRGINIA
Marlinton

ONTARIO, CANADA
Fergus
Galt
Kitchener
London
Preston

PUERTO RICO
Manati

General Line Distribution of St. Louis Sales Divisions

The effectiveness of the aggressive sales and advertising programs begun last year was evidenced by the sharp increase in volume of the general line sales divisions in 1959.

The advertising efforts were concentrated on the very successful TV spot program which brought "International . . . the world's largest shoe manufacturer" to the attention of 60 million people each week. This program will be expanded in 1960.

The Golden Key promotion resulted in the adoption of the Merchants Service Plan by over 200 additional retailers. Twenty per cent of these accounts represent entirely new business. The remainder are stores to whom we were selling only a portion of their requirements.

Dealers operating under the plan benefit in many ways from this close tie-in with their principal source of shoes. Comprehensive merchandising and accounting plans are provided them, but more important is the counsel available through Merchants Service representatives. These men, thoroughly experienced in all phases of shoe retailing, are constantly in the field ready to help in solving store problems.

International in 1958 established a style and merchandising division to concentrate on the development and promotion of shoes for the teen-age market. This was done in order to take full advantage of this rapidly growing market. Over the past several years the increase in volume of teen-age footwear has been an outstanding feature of the industry. Acceptance of our new lines by the trade has been very gratifying. These shoes are distributed under the brand names of Trios, Gems and Smart Set.

During the year the Company set up a sales office in Hawaii and our customers in the fiftieth state will now be serviced by the Company's own sales representative. Previously the Company's product was distributed through a sales agent. The rapid development of the Islands in the postwar period and the area's bright future have increased the market for our shoes.

ROBERTS, JOHNSON & RAND

PETERS

FRIEDMAN-SHELBY

NORTHEAST
(Manchester, N. H.)

SOUTHEAST
(Atlanta, Ga.)

M. R. Chambers, vice-president in charge of sales, emphasizes quality features of the 1960 spring styles to customers Winford H. Gattis (center) and Joe Lewis (right) at the Dallas shoe show.

Specialty Line Distribution of St. Louis Sales Divisions

The St. Louis specialty divisions concentrate their sales efforts on a single line designed for a specific market or for sale to a particular class of customer. This is in contrast to the activities of the St. Louis general line sales divisions which distribute all types of men's, women's and children's shoes.

The specialty line shoes are distributed through the nation's leading department stores and major shoe stores in metropolitan cities.

The men's specialty divisions continued to lead in sales in 1959. During the year the Winthrop Division began the production and distribution of Hanan shoes, bringing another powerful name into the list of outstanding International names. The Hy-Test Division, whose customers are principally industrial companies, enjoyed a good year despite the handicap of the steel strike.

The strengthening of the women's specialty divisions in 1958 through the employment of a marketing manager, the establishment of a separate manufacturing division and the consolidation of all clerical functions, contributed to the fine showing of these divisions in 1959. The Panorama line introduced in 1958 has been well received and is now established in some of the foremost shoe retail outlets in the country.

Three divisions which serve large volume accounts, principally chains, enjoyed substantial sales increases in 1959. Competition for this business is especially keen and progress made during the past year by the volume sales divisions is very gratifying, and continued improvement in 1960 may be expected.

During the year improvement continued in the styling, quality and timely delivery of these shoes. Major changes in packaging, presentation and national advertising also added strength and impetus to these lines.

Orders now being received point to continued growth of the specialty divisions during the coming year, and it appears that a significant trend toward higher volume has been established.

ACCENT SHOE COMPANY
EXPORT DIVISION
GREAT NORTHERN SHOE CO.
HY-TEST SAFETY SHOES
PANORAMA SHOE CO.
PENNANT SHOE CO.
QUEEN QUALITY SHOE CO.
VITALITY SHOE CO.
WINTHROP SHOE CO.

VOLUME DISTRIBUTION

CONTINENTAL SHOEMAKERS
HAMPSHIRE SHOE CO.
SENTINEL DIVISION

Specialty divisions' brands are advertised in the nation's leading magazines. Attractive ads like these appear regularly throughout the year.

The Florsheim Shoe Company

HAROLD M. FLORSHEIM
President

The Florsheim Shoe Company for 1959 reported sales at an all-time high for the Company's sixty-seven years in business to strengthen further the Company's position as the largest manufacturer of men's shoes in the quality field.

Over and above increased popularity and consumer demand, two factors contributed strongly to the year's success—the full operation of a new warehouse and distributing center finished a year ago; plus a revamped formula of men's in-stock merchandising which made it possible to render dealers and customers prompt delivery and efficient service. This was reflected in mail orders which set new all-time records week after week throughout the year.

Keenly aware of the changing trends in retail distribution, Florsheim has kept pace with suburban and shopping center developments, and outlets are being established wherever a satisfactory volume of business can be assured.

Florsheim continues to hold its position as the largest single advertiser in the men's shoe field. Recognizing the necessity of keeping up with changing conditions, Florsheim embarked upon a campaign of Sunday supplement advertising in the larger markets in order to localize a portion of its national effort.

The Florsheim Women's Division made exceptional progress in the past year and presently enjoys a larger volume of business and greater consumer acceptance throughout the country.

BOARD OF MANAGERS

WILLIAM H. ARMSTRONG	WELDON P. MAGEE
WILLIAM D. BENJES	MARTIN F. MAHER
MAURICE R. CHAMBERS	ROBERT O. MONNIG
WILLIAM COLLINGWOOD	OSWALD M. PICK
SIMEON F. EAGAN	HENRY H. RAND
HAROLD M. FLORSHEIM	NORFLEET H. RAND
THOMAS W. FLORSHEIM	JOHN K. RIEDY
GIFFORD P. FOLEY	LAURENCE M. SAVAGE
RICHARD A. HEIDER	PAUL M. SMITH
J. LEE JOHNSON	JOSEPH B. STANCLIFFE

JOHN W. WALLACE

OFFICERS

HAROLD M. FLORSHEIM
President

Vice Presidents

S. F. EAGAN
Manufacturing

O. M. PICK
Sales

J. B. STANCLIFFE
Retail Operations

W. H. ARMSTRONG
W. D. BENJES
W. COLLINGWOOD
T. W. FLORSHEIM
G. P. FOLEY
W. P. MAGEE
J. K. RIEDY

J. W. WALLACE, Treasurer and Secretary
B. B. CLAYBURN, Assistant Secretary
M. F. MAHER, Director of Advertising

Newest Florsheim men's and women's shopping center store, Mayfair, Milwaukee.

Savage Shoes Limited


LAURENCE M. SAVAGE
President

For the fifth consecutive year since Savage Shoes Limited, Canada's largest shoe manufacturer, joined International's family, record sales were established surpassing its 1958 all-time high by a substantial margin. Savage's healthy growth, an impressive 63% in the past five years, is attributed largely to the careful planning of its production facilities, sales and advertising to capitalize on Canada's rapidly expanding population.

Three important strides were taken in 1959 for further growth.

Early in the year a new juvenile shoe manufacturing plant was opened in Galt, Ontario, with 50% greater productive capacity than the former Galt plant.

Permanent sample rooms were opened in Vancouver, British Columbia, Canada's third largest city.

In May, Savage acquired Scott & McHale Limited of London, Ontario, a company whose reputation in the men's high-grade shoe field dates back almost half a century. With the full co-operation of The Florsheim Shoe Company, a line of McHale shoes was launched for fall. Backed by a strong national advertising campaign, this new line gained immediate acceptance at both trade and consumer levels. A modern plant is planned for erection in 1960 in anticipation of further sales increases.

Led by a progressive Canadian management, well aware of its country's development, the future of International through its Canadian subsidiary looks promising indeed.

Savage Shoes

DIRECTORS

C. REG KIDNER — HENRY H. RAND
JOHN S. MALCOLM — NORFLEET H. RAND
ROBERT O. MONNIG — LAURENCE M. SAVAGE

OFFICERS

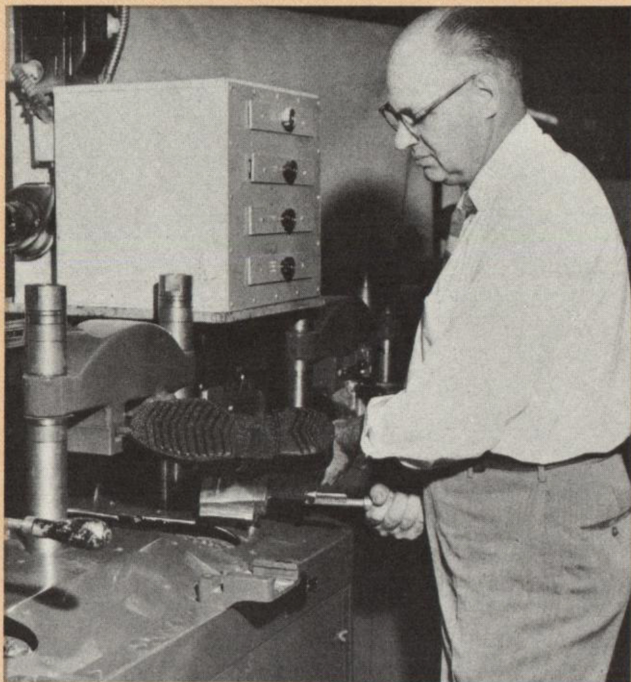
LAURENCE M. SAVAGE
President

C. REG KIDNER
Vice-President & Secretary-Treasurer

JOHN S. MALCOLM
Vice-President

Three popular John McHale styles produced by Scott & McHale Limited.

Some Items of



NEW VULCANIZED CONSTRUCTION. This scene in the Bluff City plant at Hannibal, Missouri, shows the process of vulcanizing a one-piece composition sole and heel to a leather upper in a single operation. Vulcanized shoes now being manufactured include industrial safety shoes and insulated and waterproof outdoor footwear. Equipment presently installed for this relatively new process will produce 1,600 pairs of shoes per day.

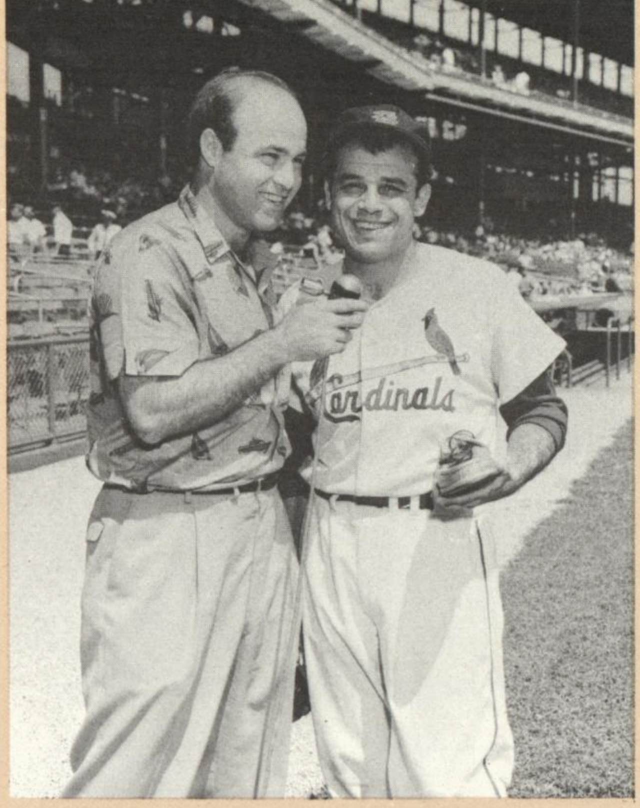
INDUSTRY REPRESENTATIVE AT MOSCOW FAIR. International's director of foreign trade, Hector R. Dominguez, was chosen to represent the shoe industry at the American National Exhibition in Moscow sponsored by the U. S. Department of State.

The shoe and leather display, which included 120 styles of men's, women's and children's shoes manufactured by International Shoe Company, proved to be a popular source of interest to the several million Russians who attended the fair.

FASHION STUDY IN EUROPE. Mr. Phil Miller, marketing manager for women's shoes, discussed fashion trends with leading designers in London, Paris, Rome and other style centers during the past summer. This first-hand view of the latest in European styling will enhance the acceptance of our fashion lines. He is shown here exchanging style ideas with a leading stylist in Florence, Italy.

RETAIL DIVISION ESTABLISHED. Mr. Raymond A. Highbarger, former vice-president and general manager of Nordstrom's in Portland, Oregon, was named general manager of International's retail division to coordinate and expand the operation of company-operated retail outlets. Mr. Highbarger (l) is shown here with Mr. Arthur Voekel, manager of Paul's Shoes, Inc., which became part of the ISCO retail division in 1959.

Interest in 1959



JOE GARAGIOLA ADVERTISES OUR NATIONAL BRANDS. Joe Garagiola, versatile radio and TV personality and former major league catcher, promoted the sale of our nationally-advertised brands during the past baseball season with his radio program "The Fan in the Stands." This is typical of the Company's advertising efforts aimed at supporting salesmen and retailers with fresh, hard-hitting ideas. Shown with Joe is popular singing star, Julius LaRosa, attired in a Cardinal uniform.

FOOT SAFETY AT HOME. Hy-Test safety shoes have led the field in reducing industrial foot accidents for over 25 years. This year Hy-Test developed a special line of footwear for men and women to reduce the hazard of operating power lawn mowers. This new field offers an excellent opportunity for increased sales of our outstanding lines of safety shoes.

HANAN SHOES DISTRIBUTED BY WINTHROP. The Winthrop Division began the distribution of the well-known Hanan & Son shoes for men late in the year. For over a century Hanan has been one of the most respected names in the men's dress shoe field. Hanan shoes, which retail upward from $22.95, will be carried in stock with a broad selection of new and staple styles.

HAND-SEWN SHOES PRODUCED IN PUERTO RICO. During the year production of hand-sewn moccasins was initiated in a new plant at Manati, Puerto Rico, bringing to three the number of International's plants in Puerto Rico. The unusual manual dexterity of the Puerto Rican people lends itself particularly well to the hand-sewn construction. At year end the Manati plant was producing 1,200 pairs of hand-sewn shoes a day.

INTERNATIONAL

Ten Year

CONSOLIDATED FINANCIAL REVIEW

YEARS ENDED NOVEMBER 30

	1959	1958	1957
NET SALES	$283,261	$244,314	$266,073
INCOME BEFORE TAXES	19,400	15,554	18,675
FEDERAL AND CANADIAN INCOME TAXES	10,132	7,938	9,095
NET INCOME (1)	9,207	7,541	9,577
DIVIDENDS PAID	6,050	7,043	8,054
PERCENTAGE OF NET INCOME TO SALES	3.3%	3.1%	3.6%
PER SHARE—NET INCOME (2)	$ 2.71	$ 2.25	$ 2.86
PER SHARE—DIVIDENDS	1.80	2.10	2.40
CASH AND GOVERNMENT SECURITIES	$ 9,952	$ 12,317	$ 8,495
RECEIVABLES	52,418	43,468	45,304
INVENTORIES	80,198	65,473	71,613
PREPAID EXPENSES	680	404	593
TOTAL CURRENT ASSETS	143,248	121,662	126,005
CURRENT LIABILITIES	42,921	24,872	28,965
WORKING CAPITAL	100,327	96,790	97,040
PHYSICAL PROPERTIES (NET)	38,588	37,882	38,520
OTHER ASSETS	10,805	10,836	11,257
LONG-TERM DEBT	40,351	41,316	42,999
MINORITY INTERESTS IN SUBSIDIARIES	1,453	912	1,035
STOCKHOLDERS' EQUITY	$107,916	$103,280	$102,783
SHARES OF COMMON STOCK OUTSTANDING	3,395,222	3,353,718	3,353,718
STOCKHOLDERS' EQUITY PER SHARE	$31.78	$30.80	$30.65

(1) After adjustment for minority interests.
(2) Based on shares outstanding.
(3) Includes nonrecurring items which increased net income $1,101,325 or 33 cents per share.

SHOE COMPANY

1956	1955	1954	1953	1952	1951	1950
(DOLLARS IN THOUSANDS)						
$266,814	$262,414	$246,765	$251,028	$217,042	$225,070	$199,009
22,123	21,847	21,659	19,508	17,116	20,170	19,386
11,246	11,448	11,592	9,687	8,859	11,459	8,248
11,849 (3)	10,414	10,203	9,931	8,287	8,837	11,138
8,062	8,095	8,131	8,139	8,096	8,158	8,669
4.4%	4.0%	4.1%	4.0%	3.8%	3.9%	5.6%
(IN DOLLARS)						
$ 3.53 (3)	$ 3.10	$ 3.01	$ 2.93	$ 2.44	$ 2.61	$ 3.28
2.40	2.40	2.40	2.40	2.40	2.40	2.55
(DOLLARS IN THOUSANDS)						
$ 8,892	$ 10,639	$ 10,443	$ 11,527	$ 23,168	$ 6,149	$ 4,494
46,778	40,621	40,335	41,028	34,472	26,211	36,126
74,409	71,848	72,968	72,822	59,051	58,674	47,764
564	430	564	574	976	842	742
130,643	123,538	124,310	125,951	117,667	91,876	89,126
31,253	27,223	38,704	39,608	25,575	23,815	21,640
99,390	96,315	85,606	86,343	92,092	68,061	67,486
37,054	36,800	35,787	33,217	23,010	22,242	22,593
10,657	10,394	9,609	10,972	8,065	5,227	4,978
44,415	44,655	33,552	34,958	30,000	2,592	2,692
1,228	1,152	884	900	214	213	—
$101,458	$ 97,702	$ 96,566	$ 94,674	$ 92,953	$ 92,725	$ 92,365
3,358,703	3,359,503	3,386,203	3,390,803	3,392,753	3,391,100	3,399,200
$30.21	$29.08	$28.52	$27.92	$27.40	$27.34	$27.17

Consolidated Financial Position

November 30,	1959	1958
Current assets:		
Cash	$ 9,191,805	$ 11,557,462
United States Government securities, at cost	760,000	759,506
Receivables—trade and sundry, less allowance for cash discounts and doubtful accounts	52,417,711	43,467,751
Inventories (Note 2)	80,198,399	65,473,172
Prepaid insurance premiums, taxes and sundry	679,909	403,877
Total current assets	143,247,824	121,661,768
Less—current liabilities:		
Notes payable to banks	11,144,950	290,000
Current maturities of long-term debt	1,755,250	1,683,583
Accounts payable and accrued expenses	20,723,392	15,286,792
Employees' balances and tax withholdings	1,467,594	1,545,409
Federal and Canadian taxes on income	7,830,113	6,065,844
Total current liabilities	42,921,299	24,871,628
Net working capital	100,326,525	96,790,140
Physical properties—based on appraisal April 30, 1925, plus subsequent additions at cost, less accumulated depreciation (Note 3)	38,587,982	37,882,118
Customers' secured loans, deferred maturities	7,409,966	8,034,058
Excess of investment over equity in subsidiaries (net)	1,153,940	717,238
Employees' notes receivable for stock, secured by 58,544 shares (59,018 shares in 1958) of parent company's common stock	1,294,296	1,296,538
Sundry investments and deferred charges	946,944	788,622
	149,719,653	145,508,714
Deduct:		
Long-term debt, less current maturities (Note 4)	40,350,500	41,315,750
Minority interests in subsidiaries	1,452,897	912,487
	41,803,397	42,228,237
STOCKHOLDERS' EQUITY	$107,916,256	$103,280,477
Represented by:		
Common stock without nominal or par value: Authorized 4,000,000 shares; issued 3,400,000 shares	$ 51,000,000	$ 51,000,000
Capital in excess of stated amount; (the decrease in 1959 arose through transactions in treasury stock)	1,037,123	1,319,004
Retained earnings (Note 5)	56,060,400	52,903,516
	108,097,523	105,222,520
Less common stock in treasury, 4,778 shares (46,282 shares in 1958) at cost	181,267	1,942,043
Stockholders' equity applicable to common stock outstanding, 3,395,222 shares (3,353,718 shares in 1958)	$107,916,256	$103,280,477

See accompanying notes to financial statements.

Consolidated Income and Retained Earnings

Years Ended November 30,	1959	1958
Sales and other income:		
Net sales	$283,260,920	$244,313,888
Income from rentals and services	355,193	304,635
Interest and other income	892,768	689,317
	284,508,881	245,307,840
Deductions:		
Cost of sales, selling, general and administrative expenses (Note 7)	262,942,648	227,647,148
Interest and amortization of expense on long-term debt	1,466,222	1,525,505
Other interest and sundry charges	700,145	581,678
	265,109,015	229,754,331
Income before Federal and Canadian taxes on income	19,399,866	15,553,509
Federal and Canadian taxes on income, estimated	10,131,769	7,938,113
	9,268,097	7,615,396
Proportion of net profit of subsidiaries applicable to minority interests	61,028	74,847
NET INCOME FOR YEAR APPLICABLE TO CAPITAL STOCK OF COMPANY	9,207,069	7,540,549
Retained earnings at beginning of year	52,903,516	52,405,775
	62,110,585	59,946,324
Dividends on common stock:		
$1.80 per share ($2.10 per share in 1958)	6,050,185	7,042,808
RETAINED EARNINGS AT END OF YEAR	$ 56,060,400	$ 52,903,516

See accompanying notes to financial statements.

Accountants' Report

THE BOARD OF DIRECTORS
INTERNATIONAL SHOE COMPANY:

We have examined the statement of consolidated financial position of International Shoe Company and subsidiaries as of November 30, 1959 and the related statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of consolidated financial position and statement of consolidated income and retained earnings present fairly the financial position of International Shoe Company and subsidiaries at November 30, 1959 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

St. Louis, Missouri
January 4, 1960

INTERNATIONAL SHOE COMPANY

Notes to Financial Statements

(1) PRINCIPLES OF CONSOLIDATION:

All subsidiaries (including one Canadian) with a 51% or greater ownership are included in the consolidated financial statements in accord with established policy of the company. Operating results from acquisition date of newly acquired subsidiaries are included in consolidated income.

Insofar as practicable, all intercompany accounts, transactions, and unrealized profit in inventories have been eliminated in consolidation.

(2) INVENTORIES:

	November 30 1959	1958
Finished shoes	$45,027,140	$32,766,936
Shoes in process	2,784,069	2,842,999
Hides and leather	13,499,384	11,947,029
Miscellaneous materials on hand and in process	18,887,806	17,916,208
	$80,198,399	$65,473,172

Fifty-two per cent of the inventories at current values are priced at cost, last-in, first-out (Lifo). The remainder of the inventories, including all miscellaneous materials and supplies, are priced at the lower of cost, first-in, first-out, or replacement market.

(3) PHYSICAL PROPERTIES:

	November 30 1959	1958
Land	$ 3,732,629	$ 3,646,065
Buildings and structures	40,607,174	39,188,062
Machinery and equipment	41,004,278	38,428,498
Lasts, patterns, and dies	1	1
	85,344,082	81,262,626
Less accumulated depreciation	46,756,100	43,380,508
	$38,587,982	$37,882,118

Properties of Twelfth-Delmar Realty Company (net balance November 30, 1959, $2,576,041) are pledged as collateral on mortgage notes payable to banks.

(4) LONG-TERM DEBT, LESS CURRENT MATURITIES:

Long-Term Debt, Less Current Maturities: (continued)

	November 30 1959	1958
3½% promissory installment notes, due annually $1,125,000, 1962 through 1981 and balance in 1982	$30,000,000	$30,000,000
3⅛% promissory installment note, payable $1,500,000 annually 1961 through 1965	$7,500,000	$9,000,000
Mortgage notes payable, an obligation of Twelfth-Delmar Realty Company, payable $10,000 monthly, and balance December 1, 1963	1,570,000	1,690,000
5½% sinking fund debentures, obligations of Savage Shoes Limited:		
Series A, annual sinking fund requirements $48,750 to 1961 and $52,500 thereafter	360,000	408,750
Series B, annual sinking fund requirements $16,500 to 1966 and $17,000 thereafter	200,500	217,000
Installment bank loan, an obligation of Savage Shoes Limited, payable $80,000 annually 1960 through 1968. Interest at daily commercial rate, presently 5¾%	720,000	—
	$40,350,500	$41,315,750

(5) RETAINED EARNINGS RESTRICTIONS:

Retained earnings of $28,470,720 at November 30, 1959, are restricted as to payment of cash dividends on common stock by the 3½% promissory note agreement. The note agreement also provides that no payment be made for dividends unless consolidated net working capital shall be at least $50,000,000.

(6) COMMON STOCK SUBJECT TO OPTIONS:

At the beginning of the year options to acquire 33,540 shares were outstanding. During the year options to acquire 115,550 shares were granted at the market price on April 1, 1959, and options to acquire 27,000 shares were cancelled or expired.

At November 30, 1959, options were outstanding to acquire 300 shares at $41; 6,240 shares at an average of $39 and 115,550 shares at $34½. The various options were priced at more than 95% of market and are exercisable between eighteen and sixty months from date of grant.

(7) CERTAIN CHARGES TO OPERATIONS:

	1959	1958
Depreciation of physical properties	$3,567,387	$3,455,118
Maintenance and repairs	5,006,911	4,470,329
Taxes other than income taxes	5,723,350	4,700,609
Rentals of real property	5,229,137	4,525,962
Rentals of shoe machinery	2,228,963	2,032,254

INTERNATIONAL SHOE COMPANY
National Advertising

TV SPOTACULAR...COAST TO COAST...GIVES ISCO BRANDS 60 MILLION CONSUMER IMPRESSIONS EVERY WEEK!

Choice TV spot programming, with powerful sales messages by famous TV personalities and national networks, advertise our national brands to a mass viewing audience in 127 market areas across the nation. This spectacular dealer co-op campaign, utilizing dramatic, professionally produced film spots, results in the greatest TV coverage in shoe business!

"QUEEN FOR A DAY"—Grace Walker and Gems

"THE PRICE IS RIGHT"—Trim Tred and Smart Set

"IT COULD BE YOU" —Velvet Step and Trios

"TOP DOLLAR" —Velvet Step and Trios

TOM POSTON —for John C. Roberts

MARION MARLOWE —for City Club

CARTOON FROLIC—for Red Goose, Poll-Parrot, Weather-Bird

"LEAVE IT TO BEAVER" —Savage (in Canada)

Transcribed radio spots, re-creating TV Spotacular themes, are available nation-wide... reach into areas not covered by television...

***Plus,* Joe Garagiola, on big league baseball broadcasts in St. Louis.**

And, leading magazines feature our specialty brands in a compelling schedule of ads

- **ACCENT**
- **FLORSHEIM**
- **PANORAMA**
- **SOFT PEDALS**
- **VITALITY**
- **WINTHROP**

Esquire — Life — Post — Look — Time — Vogue — Bazaar
Seventeen — Sports Illustrated — Ladies' Home Journal
Glamour — McCall's — Reader's Digest

FOR MEN
City Club
Florsheim
Hanan
Hy-Test
Kingsway
Rand
Randcraft
John C. Roberts
Wesboro
Winthrop
McHale (in Canada)

FOR WOMEN
Accent
Florsheim
Hy-Test
Panorama
Soft Pedals
Trim Tred
Velvet Step
Vitality
Grace Walker

FOR CHILDREN
Poll-Parrot
Red Goose
Weather-Bird
Savage (in Canada)

FOR TEENS
Gems
Smart Set
Trios
Savage (in Canada)

ISCO

World's largest manufacturer of men's, women's and children's shoes